Budget Update

April 27, 1999

Overall

The Appropriations Committees are now in full swing with for consideration and review of the FY 2000 appropriations requests of agencies. All hearings for both the House and Senate have been completed. Most Departments, including Treasury, are currently in the midst of the extensive process of completing numerous follow-on questions from the individual hearings, with short turn around times. (In the House, Appropriations Committees must have this process complete prior to initiating Subcommittee markups, hence the pressure on Agencies.)

Due to the late start by both the House and Senate at the beginning of the 106th Congress in January, the Congress has moved quickly to put the process back on schedule for the *traditional activity on markups that are still scheduled to begin in mid-May*. The numbers are tight, with many of the proposals of the President rejected by the Budget Committee due development and approval of the Budget Resolution. We expect many, but not all, of these differences to be worked out in the end prior to enactment, following a long summer.

<u>Budget Committee Action</u> . . . Advance of Appropriations

This year has, and will continue to be, an unusually busy year with the passage of an expected *Reconciliation Bill*, a process that is overseen by the Budget Committees, to address proposals on Social Security reform, Medicare, and the levels of Discretionary spending.

Reconciliation is that part of the overall budget process that attempts to address major entitlement and permanent legislation beyond annual appropriations -- items such as, social security, Medicare, welfare payments, retirement and veterans benefits, agricultural subsidies, interest on the public debt and debt ceilings, etc. Under existing budget laws (initiated in 1990), any independent action in this area must be completely neutral ("pay-as-you go"). Proposals that are designed to significantly change enabling legislation <u>must</u> be handled through legislation. That legislation, which complements the annual appropriation process, is entitled the Reconciliation process, because it reconciles the changes in the law overall cost impacts. Appropriations action, while not officially included in Reconciliation legislation, is coordinated with overall dollar and spending targets set out in this unique legislation. Most Reconciliation legislation is for at least five years, with the last one being the Balanced Budget Agreement of 1997, covering the period 1998 - 2002. (The previous one passed in August 1993, coinciding with the proposals of the new Administration.)

This year's Reconciliation legislation will be the vehicle for addressing the President's proposals for Social Security reform, Medicare, general use of the surplus, and any proposed adjustments to the Discretionary Spending Caps. It is always initiated with a Budget Resolution, required to be completed by April 15. The more substantive legislative activity that implements the Budget Resolution goals/blueprint is carried out through the actual Reconciliation process, which this year is slated to occur in July. The budget Resolution was, in fact, completed by April 15, and represents the first time in over a decade that such on-time action was completed by the Budget Committee. It is also slated to be completed in advance of Appropriations Committees actions on Agencies requests. *However, many years, due to the complexity of issues involved, the process has been delayed.*

The Budget Resolution, which was agreed to by the Congress on April 15, set a general framework for implementing many new proposals associated with Social Security reform, although many of the details await development by the House Ways & Means Committee and Senate Finance. The legislation is due back to the Budget Committee in July. The proposals of the Administration to relieve pressure on discretionary spending by use of discretionary spending offsets, user fees and 12% of the 10 year estimate of budget surpluses was rejected by the Congress and will likely be addressed again later in the year. The issue still ahead is the use of anticipated surpluses for general tax cuts, which the Administration opposes. The President's budget set out a framework for use of the surplus as follows: 62% for Social Security; 15% for Medicare; 11% for special USA savings accounts; and 12% for selected initiatives in the defense and domestic agencies.

Last year, both the House and Senate completed action on the Budget Resolution by June, however, action was delayed until almost the end of the fiscal year, creating a significant backlog on Appropriations Bill process; *the result was a 4,000 page Omnibus Appropriations bill at the end of the session.* This year, Congress is looking to advance that process and avoid the backup that occurred last year. Prior to that occurring, major proposals must be addressed first -- Social Security reform, Medicare proposals, discretionary spending. *Many appropriation request proposals, for Treasury, as well as for other Federal agencies, are contingent on the results of these discussions and deliberations.*

<u>Appropriations Plans:</u>

With Budget Committee action complete, the next step is formal allocations to all Appropriations Subcommittees, commonly referred as "302(b)," referring to the specific section in the 1974 Budget Process legislation that set out the allocation procedures. This allocation, which sets the stage for action Appropriation Committee action on Agencies request, will be happening in the next two weeks, and will allow for formal

Committee markups to occur by mid-May in the House.

Having said all that, the approved Budget Resolution recommendations do not provide the hoped for relief from very restrictive Discretionary Spending Ceilings, which are almost \$30 billion below the President's proposals for Fiscal Year 2000, and almost \$40 billion below for non-Defense programs. So, much disagreement still remains on proper funding levels for Federal Agencies. Early markups will reflect this restrictive climate, an environment that will dominate the entire Appropriations process for the summer that is not expected to be resolved until the end of the process in October. A repeat of last fall's end game issues is expected.

Treasury's FY 2000 Budget Request

<u>Summary</u>: FY 2000: \$12.659 Billion requested (After proposed offsets, net appropriations request totals \$12.205 Billion)

Offsets are: (1) \$312M through implementation of additional fee on Customs commercial operations; and **(2)** \$142M from Treasury Forfeiture Fund.

FY 1999: \$12.138 Billion [\$12.690 Bil. w/ Y2K]